

Message Text

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SUBJECT: ECONOMIC IMPACT OF THE EMERGENCY

1. THIS CABLE SUMMARIZES THE PRINCIPAL CONCLUSIONS OF AN AIRGRAM WE HAVE PREPARED ON THE ECONOMIC IMPACT OF THE EMERGENCY. THE PRINCIPAL BENEFITS OF THE EMERGENCY HAVE BEEN INCREASED DISCIPLINE AND EFFECTIVENESS IN SUCH AREAS AS LABOR, INTER-STATE RELATIONS AND CENTRAL GOVERNMENT ADMINISTRATION. LABOR PROBLEMS HAVE DIMINISHED MARKEDLY, RESULTING IN INCREASED WORKER PRODUCTIVITY AND INDUSTRIAL PRODUCTION. FOUR LONG-STANDING WATER DISPUTES BETWEEN STATES HAVE BEEN SETTLED, MOST NOTABLY CONCERNING THE GODAVARI RIVER BASIN WHICH COVERS APPROXIMATELY TEN PERCENT OF THE COUNTRY. THESE SETTLEMENTS SHOULD HELP TO IMPROVE THE MANAGEMENT OF WATER RESOURCES AND INCREASE THE AMOUNT OF IRRIGATED LAND. THE CENTRAL GOVERNMENT BUREAUCRACY HAS BEEN MAKING DECISIONS MORE RAPIDLY AND APPEARS TO HAVE A MORE EFFECTIVE PRESENCE IN RURAL AREAS.

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2. NONE OF THESE POSITIVE STEPS ARE PART OF THE GOVERNMENT'S

20 POINT ECONOMIC AND SOCIAL REFORM PROGRAM. A START HAS BEEN MADE ON IMPLEMENTING MANY OF THE 20 POINTS, E.G. THE DRIVE AGAINST BLACK MONEY ACTIVITIES, INCLUDING THE SUCCESSFUL COMPLETION OF THE VOLUNTARY TAX DISCLOSURE SCHEME; A MORATORIUM ON THE DEBT OF POORER FARMERS; AND THE ESTABLISHMENT OF A FEW RURAL BANKS. HOWEVER, SINCE MUCH OF THE PROPOSED PROGRAM ATTEMPTS TO DEAL WITH FUNDAMENTAL ECONOMIC AND SOCIAL PROBLEMS, SHORT-TERM RESULTS ARE NOT IN THE CARDS. ALSO, WE HAVE NOT YET SEEN ANY EVIDENCE THAT MRS. GANDHI IS WILLING TO REDUCE THE POWER OF CONSERVATIVE RURAL GROUPS THAT DOMINATE THE VILLAGES OR THAT ANY ORGANIZATIONAL STRUCTURE IS YET IN PLACE EVEN IF SHE HAD THE WILL TO CARRY OUT RURAL REFORMS.

3. THE EMERGENCY PLUS THE GOOD MONSOON IN 1975 HAS GIVEN THE GOI SOME BREATHING ROOM TO PLAN AND IMPLEMENT LONG RANGE ECONOMIC AND SOCIAL POLICIES. WHETHER MRS. GANDHI AND HER COLLEAGUES HAVE THE WILL AND ABILITY TO TAKE ADVANTAGE OF THIS SITUATION AND TACKLE SOME OF THE FUNDAMENTAL PROBLEMS FACING THE INDIAN ECONOMY IS A MAJOR QUESTION MARK.

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